



## **Evergreen East Hills Vision Strategy Campus Industrial Analysis**

The industrial opportunity sites are critical to the success of the entire Evergreen East Hills Strategy. The proposed development for these sites generates the lion's share of the developer fees and amenity dollars (both traditional and the unprecedented additional contributions contemplated). Thus, the policy decision to return the land use designation of these sites back to its previous designation as residential is absolutely necessary to move the project forward.

We believe that the following points represent clear reasons why the City of San Jose should approve returning the zoning of the industrial sites in Evergreen to residential uses:

1. Our residential conversion proposal, on a net present value basis, has a positive net fiscal impact for the City, even when projecting out on a net present value basis over the next 30 years: \$6.4 million net positive over the first 10 years, \$5.4 million over the first 20 years, and \$2.6 million through 30 years.
2. These industrial sites have a 20-year history of inactivity, beginning in the early 1980s when they first were rezoned during the "Berryessa Swap."
3. Third party analysis concludes that the sites, under optimum conditions would not reach full build out until 2036, with no activity at all until at least 2011. Based on previous history and the current surplus of industrial sites, this is considered highly unlikely.
4. During the 1990s, which saw the largest boom in industrial leasing in the last thirty years, not a single lease was signed on the Evergreen industrial sites. These sites were aggressively marketed by several top commercial leasing firms and owned by well-established industrial users with no success.
5. The sites lack three key needs for successfully locating industrial uses: easy freeway access, transit connections, and visibility.
6. The surrounding uses are all residential.
7. Residential development on these sites is critical to ensuring the entire EEHVS project is successful, as they generate the largest share of fees for transportation improvements and amenities.

It is important to understand that the City of San Jose had traditionally considered this geographic area as most appropriate for residential uses. The Campus Industrial Land

Use Designation was introduced into the Evergreen area in the early 1980s as part of the "Berryessa Swap" effort. The City "swapped" Residential uses in Evergreen with Industrial uses in the Berryessa area (roughly the NE quadrant of the Brokaw Road/Oakland Road). The idea was to move the "jobs" down to the existing homes and to move housing into the job-rich areas in North San Jose.

Unfortunately, after twenty years, that strategy has yet to bear any fruit in Evergreen. During the 1990s, which saw the largest boom in industrial leasing in the last thirty years, not a single lease was signed on the Evergreen industrial sites. These sites were aggressively marketed by several top commercial leasing firms and owned by well-established industrial users, all experts in marketing, leasing and developing industrial properties. All of their efforts were unsuccessful.

Looking prospectively, the outlook is equally grim for the Evergreen Campus Industrial sites. The City's "Towards the Future" study predicts that even after another twenty years it is unlikely to be developed as a job center. Due to an exceptionally large vacancy rate in Silicon Valley, the Evergreen sites are viewed as marginal industrial sites at best. Once the demand for industrial space returns, the better-suited and higher profile sites in the northern portion of Santa Clara County and North San Jose will be developed and leased first, followed by secondary markets, such as Edenvale.

Based on the previous failures in Evergreen and independent analysis of its future prospects, retaining Evergreen as industrial land will be a failed policy experiment that spans four decades, preventing the City from expanding its tax base and realizing tremendous community improvements.

### **Framework For Evaluating Proposed Conversions of Employment Lands**

The Council in 2004 established a framework for evaluating the conversion of Industrial lands to create more certainty and predictability in the review of employment land conversion proposals while retaining flexibility to respond to changing conditions, information, and policy considerations. The Evergreen industrial area meets the framework criteria as noted below and was noted in the development of the framework to be an area considered for conversion if recommended through the Evergreen East Hills Vision Strategy process (Mayor Gonzales, Councilmember Reed, March 25, 2004):

#### **The 12 Criteria for the evaluation of proposed conversions to housing, mixed use, retail, and/or other Household-Serving Industries:**

1. Economic contribution of the subarea: What is the economic contribution of the subarea to the San Jose and Silicon Valley economy and job base? How would this economic contribution be enhanced or reduced by the proposed conversion?

**Evaluation:** Currently, the Evergreen industrial area has only a minimal economic contribution to the area. For the last 12 years, there has been no employment, and

Hitachi only recently leased the Dade Berhing Property. However, they did so at a distressed rate. Strategic Economics stated build out of Evergreen Industrial was unlikely until after 2020. The current owners all agree with that conclusion. The development of this area as housing to support the large employment areas in the north, central and southern areas would increase property tax revenues eight to twelve fold. The conversion of industrial to residential will create 5,200 jobs.

In addition, the construction of the infrastructure committed to by EEHHG will generate approximately \$500 to \$600 million in local construction spending and approximately \$1-1.5 billion when multiplier affects are considered.

2. **Consistency with City policies and strategies:** How do the proposed conversion and specific proposed use(s) and intensities advance the City's policies and strategies as contained in the General Plan, Specific Plans and other strategic documents?

**Evaluation:** For nearly three decades, San José has implemented smart growth policies. These policies foster economic development, revitalize downtown, protect neighborhoods, build housing, preserve open space, link land use and transportation planning, and direct growth to *appropriate areas*. The Smart Growth Strategy specifically notes that “Downtown is uniquely accessible via light and heavy rail transit, major freeways, and local streets.” The importance of accessibility to the success of commercial enterprise is clearly recognized by the City. The Evergreen Industrial sites are at a severe disadvantage when it comes to the accessibility that today’s industrial tenants demand for their employees and customers. The absence of that accessibility is one of the primary reasons that industrial development at this site has never occurred and likely will never reach the original expectations the City had for this area.

Additionally, the vacant land is completely surrounded by residential uses, all but assuring that in the remote chance that the industrial properties were developed, there would likely be a conflict between residential and industrial uses.

3. **Proximity to existing neighborhoods:** How would the new residential/mixed use knit with adjacent existing or planned residential uses and/or fill-in gaps in areas already partially converted to residential use?

**Evaluation:** The new residential will knit perfectly into the adjacent residential lands. The industrial sites are currently surrounded by homes. The City planning staff, in conjunction with architectural and engineering consultants, has reviewed and studied interfaces with the existing residential housing and street connections to ensure that compatibility with the existing residential is achieved. The community task force has contributed ideas and concerns of the surrounding neighborhoods and many of those suggestions have been incorporated.

- 4. Proximity to incompatible employment uses (e.g., manufacturing, recycling, etc.):** Where are the nearest incompatible industrial areas which might generate impacts due to hours of operation, deliveries, noise, odors, hazardous materials, etc.? How might the new residential use put pressure on the existing industrial uses to modify their operations?

**Evaluation:** The existing limited Dade Behring campus industrial complex, while adjacent to the new proposed residential development, is also currently adjacent to the existing residential. In fact, the sites are more compatible for residential uses than many of the industrial conversions approved by the City Council since the adoption of this criteria, given that it is “raw land” that has never been built on and is surrounded by homes.

Due to the type of use at the Dade Behring complex, new residential units can be built without any adverse impacts on residents of the new homes. It is very likely that at some time in the future the Dade Behring complex may consider other uses for their property as well. The Evergreen Campus Industrial Zoning is stated to be:

- a. Corporate, administrative and business offices.
- b. Research and development facilities for electronics products.
- c. Electronic products assembly facilities, including support functions and storage facilities.

While many less desirable uses could be allowed in the Campus Industrial zoning by right, by conditional use or by emergency ordinances, it is unlikely to occur at this location due to the aversion to the area by predominate industrial firms thus far.

- 5. Potential inducement of additional conversions to residential use?** How might the proposed residential use induce or pressure adjacent or nearby properties to convert to residential use?

**Evaluation:** The Dade Behring complex owners may very well consider future conversion to residential, but it will not be due to the Evergreen East Hills Vision Strategy development. Rather, it will be due to the demonstrated lack of demand for their facilities and the obvious lack of any investment return over the last twelve years.

- 6. Proximity to transit service:** Is the proposed housing site within 3000 feet of a planned BART Station or 2000 feet of an existing, funded or planned Light Rail Station?

**Evaluation:** While the Evergreen Industrial areas are not within 3000 feet of a planned BART or light rail station, they are within 3.5 miles of the proposed VTA light rail station adjacent to the Arcadia Evergreen Smart Growth Strategy development partner property. Further, the Evergreen Industrial areas are closer to the proposed VTA light rail station than they are to the nearest freeway connections, the closest of which is

approximately 5.5 miles away. The property's distance from freeway access, makes it less marketable to potential industrial users.

Additionally, opportunity sites must be considered as a whole. Together, the properties can provide an unprecedented infrastructure and amenity package that would not be provided without the development of the industrial sites or if the properties were to proceed independently with individual project applications. These amenities included expanding Highway 101, expanding capacity at the Tully, Capitol and Yerba Buena interchanges, and significant capacity improvements to local streets and intersections. The Arcadia site, consisting of one-third of the housing units, is serviced by the proposed VTA station and bus routes.

7. **Proximity to compatible employment uses (e.g., office/R&D):** Where are the nearest existing or planned employment areas with compatible land use characteristics, thereby creating potential alternate commute (walk/bike to work) opportunities?

**Evaluation:** The Evergreen opportunity sites are located nearest to Edenvale and Monterey corridor employment areas and are equidistant to Downtown and North Coyote Valley. Accessibility to employment areas in North San Jose, Downtown and surrounding areas will be greatly enhanced by the improvements that will be made by BART, VTA and the EEHHG infrastructure improvements, including the Interstate 101 improvements. The proposed VTA and BART extensions into the area, along with the significant traffic improvements to be funded by the EEHHG, will greatly improve access to those job centers.

8. **Proximity to neighborhood services:** Where are the nearest existing and/or planned neighborhood serving retail, parks, libraries, schools, open space/trails, etc.

**Evaluation:** The proposal will add significant regional and neighborhood-based amenities such as a Little League fields, a community center, open space, various trail improvements and extensions, and neighborhood parks. The conversion of the campus industrial site is essential to provide these community amenities.

The original Evergreen Specific Plan created neighborhood-serving retail, parks, libraries, schools, and open space/trails. While we are not proposing retail in the industrial areas, we are proposing additional retail at the College and Arcadia sites.

The proposed residential development on the Campus Industrial site will greatly improve the retail demographics for the existing Evergreen Village Center, which is currently struggling. This will help preserve the existing neighborhood serving retail and perhaps cause the remaining retail zoned properties to be fully developed. Adding residential units will also improve retail demand at the struggling East Ridge Mall, White Road retail area, and other surrounding retail areas.

- 9. Adequacy of Fire/Police service levels:** What are the anticipated service levels or other public safety performance measures to serve the proposed housing area?

**Evaluation:** The service levels and public safety performance measures are delivered through the City development policies and conditions and through the unprecedented infrastructure and amenity commitment made by the EEHHG.

- 10. Proximity of bicycle and pedestrian facilities:** Where are the nearest existing and planned bicycle and pedestrian facilities?

**Evaluation:** Provisions have been planned to extend the Fowler area trails through the residential areas to the edge of the foothills and along approximately 75% of the easterly property boundaries of the proposed residential development on the Campus Industrial properties. Bicycle and pedestrian facilities will be included, consistent with Planning and Public Works development policies and safety standards.

- 11. Potential environmental impacts and mitigation measures, including adequacy of other public infrastructure:** What are the potential environmental impacts, and are mitigation measures included in the proposal? What public improvements are necessary to serve the new housing area?

**Evaluation:** The proposal is designed to mitigate the project's impacts and contribute significantly to improving existing infrastructure. No major significant environmental impact concerns have been discovered thus far. The unprecedented proposed contribution by EEHHG to the improvement of offsite freeway and local street improvements will, in total, improve the infrastructure far beyond the impacts created by the Evergreen Smart Growth Strategy development. It is important to point out that little to no infrastructure improvements will be made if the sites remain designated as industrial.

- 12. Potential fiscal impact:** What is the potential fiscal impact on City revenue and service costs?

**Evaluation:** The conversion of the Evergreen industrial sites to residential uses will have, on a net present value basis, a positive net fiscal impact for the City, even when projecting out on a net present value basis over the next 30 years. CBRE Consulting has done an extensive analysis of the fiscal impact of our proposal, which we submitted under separate cover at a previous task force meeting.

### **Intensification in Other Areas of San Jose Offsets Any Potential Job Loss in Evergreen Campus Industrial**

In late 2003, the City of San Jose commissioned a study to develop an economic strategy to guide policies, projects and investments for the next five years. A report by Strategic Economics covered four key areas:

- San Jose's Jobs and Employment Land
- Land Demand and Supply Dynamics
- Fiscal Analysis
- Land Conversion Issues and Implications

The information obtained during the public outreach and the finalization of the economic report concluded that the supply of industrial lands far exceeded the demand, and that the supply of residential land generally fell far short of the demand for housing.

In 2003, San Jose had approximately 13,645,000 square feet of vacant industrial building space. While the inventory and potential absorption of industrial land was debated at the time, we now have three recent EIRs that confirm the development community's assertions that the future job needs can be met with increased commercial/industrial zoning intensification in other areas.

The EIRs confirm that industrial land supply does exceed demand, and that San Jose's potential for job creation for future needs can be met while allowing selective conversion of industrial lands meeting the "Framework For Evaluating Proposed Conversions of Employment lands To Other Uses." As stated in the City's "Framework" report, the Evergreen industrial properties were considered to be prime candidates for conversion pending the outcome of the EVP planning process.

The three EIRs for North San Jose, Hitachi and Downtown all show in the Cumulative Impacts sections that 2.28 jobs will be created for every household unit, even with the conversion of Evergreen industrial to residential (calculated using 7,000 homes, as opposed to the 5,700 unit proposal of the Evergreen Smart Growth Strategy development partners). The ratio of "Jobs Per Employed Resident" will also increase.

Further, job loss in the Evergreen Campus Industrial area is highly conjectural because it assumes a full build out of the Evergreen Industrial sites, despite the fact that development has failed to occur over the last 20 years, and as the City's own analysis suggests, is not likely to occur before than 2020.



The summary data from the three project EIRs is noted in the table below:

**Employment and Housing Data From Three Current City of San Jose Draft EIRs  
Break Down of Projected Jobs and Housing in San Jose**

<b>Description</b>	<b>Jobs</b>	<b>Household Dwelling Units</b>	<b>Jobs Per Employed Resident</b>
Sub Total : Buildout Under Existing General Plan	584,000	360,000	1.08
Hitachi	575	2,930	
iStar	(1,156)		
Downtown San Jose	45,000	10,000	
Evergreen Smart Growth	(10,383)	7,000	
	102,036	44,630	
Total Build Out Under Cumulative Plan	<b>686,036</b>	<b>404,630</b>	<b>1.13</b>

The results of the three currently circulating EIRs clearly indicate that the Evergreen Campus Industrial can be converted to its most appropriate residential zoning and still result in an increase in San Jose’s “Jobs Per Employed Resident.”

**Conclusion**

The industrial opportunity sites are critical to the success of the entire Evergreen East Hills Vision Strategy. The proposed development for these sites generates 55% of the developer fees and amenity dollars (both traditional and the unprecedented additional contributions contemplated) for the Evergreen East Hills Vision Strategy project. Thus, the policy decision to return the land use designation of these sites back to its previous designation as residential is absolutely necessary to move the project forward.

Further, after nearly 20 years of inactivity, during some of the most favorable market conditions for industrial property, the Berryessa Swap has failed to generate the jobs it originally promised. Because this site lacks what the industry needs to make it successful, and the immense amount of surplus industrial facilities and land, it is highly unlikely that this condition will change.

Given those realities, the critical importance of this site to the rest of the project, and the fact that residential development will more than pay for itself in terms of the General Fund, the Campus Industrial sites should be converted back to a residential designation.